

Expanding U.S. Trade with Korea – An Easy Economic Stimulus

"This agreement will benefit the people of both our countries, boosting commerce, growing our economies, creating good-paying jobs....South Korea is already America's seventh largest trading partner, with two-way trade and goods alone reaching nearly \$70 billion last year. And we believe this is only the beginning of our shared economic potential. As President Obama said at the G20 recently, we are committed to getting the free trade agreement passed."

Secretary of State Hillary Clinton
July 21, 2010

Enhancing the longstanding partnership between the United States and the Republic of Korea by enacting the KORUS FTA will bring important economic benefits and opportunities to U.S. businesses, farmers, and workers by immediately opening access for U.S. goods and services in Korea—one of the world's largest and most dynamic economies.

By securing a more open and competitive Korean market, the FTA will boost U.S. exports to and investment in Korea—generating new jobs and economic growth for both countries.

The Importance of Trade to the U.S. Economy

- More than 57 million American jobs are directly supported by international trade.
- Exports represent 13% of U.S. GDP, and exports have been the single largest contributor to economic growth, generating 48% of GDP growth from April 2007 to March 2008.
- 95% of the world's consumers live outside the United States.

Trade Between U.S. and Korea

- Korea = 7th largest U.S. trading partner
 - = 5th largest market for U.S. agricultural goods
 - = 2nd largest market for U.S. services in Asia
 - = 10th largest market for U.S. information technology products

Overall Benefits of the KORUS FTA (USITC, 2007)

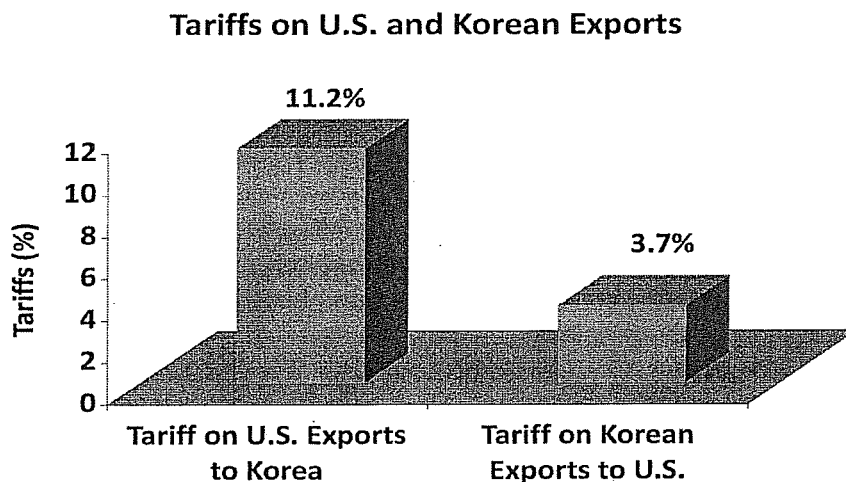
- U.S. GDP growth: \$10.1~11.9 billion
- U.S. Merchandise Exports increase: \$9.7~10.9 billion

Cost of Inaction

- A recent U.S. Chamber of Commerce study found that America could suffer a net loss of more than **345,017 jobs**, **\$20.3 billion in lost export sales** and **U.S. national output** failing to grow **\$40.4 billion**, if it fails to implement the KORUS FTA while the EU and Canada move forward to implement FTAs with Korea.

Tariff Elimination by the KORUS FTA

- U.S. exports to Korea face an average applied tariff of 11.2 percent, while the equivalent U.S. tariff on Korean exports is 3.7 percent.



Source: CRS Report for Congress, "The Proposed South Korea-U.S. Free Trade Agreement (KORUS FTA)," July 28, 2007

- With approval of the KORUS FTA, nearly 95 percent of bilateral trade in consumer and industrial products will become duty-free within three years—and almost all other tariffs will be eliminated within 10 years.
- The FTA creates significant new access in Korea for U.S. agricultural products, which now face an average applied tariff of 52 percent. Under the FTA, tariffs will be removed immediately on more than half of current U.S. farm exports to Korea—a value of \$1.9 billion.

KORUS FTA will give U.S. businesses, workers and farmers an advantage over other global competitors in Korea's growing market.

- Korea has concluded an **FTA with the European Union** – a major agreement that could give significant advantages in the Korean market to many European service and manufacturing companies at the expense of American companies waiting to benefit from the KORUS FTA.
- **Trilateral talks between Korea, Japan and China** are moving ahead with the goal of establishing a massive regional market.

KORUS FTA will ensure that the United States not only remains competitive in the Korean market, but remains a strong competitor throughout Asia.

koreauspartnership.org

Contention #1: Products, including component parts and assembled goods, made in the Kaesong Industrial Complex (KIC) can be imported to the United States

- Under U.S. law, which maintains firm sanctions against all North Korean products, no product from North Korea can enter the U.S. (Treasury's Office of Foreign Assets Control regulation). **The KORUS FTA does not change this law or conflict with U.S. sanctions against North Korea.**
 - The FTA would not change U.S. law that mandates that no product or component of a product, sold in the U.S. can trace its origin to North Korea.
- Products made in the KIC are destined for South Korea's domestic market or markets in Asia and Eastern Europe. **Korean companies that do business in the KIC purposefully segregate all products with any connection to the complex and do not allow them to be shipped to the U.S.**
 - No South Korean company would risk losing access to the American market for violating the U.S. embargo on North Korea.
- This is true of products that were fully manufactured in North Korea AND South Korean products which contain components manufactured in North Korea.
- U.S. customs authorities, not South Korean customs agents, are responsible for the verification of the origin of products to be shipped to the U.S. **The KORUS FTA includes the most effective customs enforcement measures the U.S. has ever agreed to in an FTA**, including unannounced visits to Korean producers and denying entry for non-compliant goods.
- The KORUS FTA applies to South Korea's territory and excludes the KIC and any territory controlled by North Korea. By stating that "A natural person who is domiciled [in North Korea] shall not be entitled to benefits under this agreement" The agreement makes it clear that no North Korean shall benefit, either personally or through their control of a corporation or their manufacturing of a good.

Contention #2: The KORUS FTA provides an opening for products from the KIC to gain duty-free access to the U.S. without approval by the U.S. Congress

- Annex 22-B of the agreement provides a future opportunity to discuss granting KIC products access to the U.S. IF AND ONLY IF, both the U.S. government and the South Korean government agree.
- USTR says Congress would have to pass legislation allowing Kaesong goods to qualify for preferential tariff treatment through the regular legislative process and the President would need to sign this legislation into law. No unilateral action by South Korea or by the Executive Branch could qualify goods assembled in the KIC for the benefits of the FTA.
- Before allowing products from the KIC into the U.S. would even be considered, the FTA insists that certain stringent criteria must be met, including, but not limited to:
 - Progress towards denuclearization of the Korean Peninsula;
 - The impact of the area on intra-Korean relations;
 - The environmental standards, labor standards and practices, wage practices and business and management practices prevailing in the area with due reference to the situation prevailing elsewhere in the local economy AND the relevant international norms.

Contention #3: The Ambassador's remarks indicate that the ratification of KORUS is an opening for KIC products to be allowed into the U.S. duty-free

- The quotation attributed to the Korean Ambassador claims that he said, "The planned ratification of the South Korea-U.S. free trade agreement will pave the way for the export of products built in Kaesong to the U.S. market."
- Ambassador Han actually told a group of businessmen at the KIC **"If the issues surrounding the Korean Peninsula are resolved accordingly, then it will pave the way to export the goods produced in KIC to the US without tariffs"** Unfortunately, this quotation was taken out of context. It was made in 2007, well before he became Ambassador to the U.S. and leaves out the conditional clause which preceded it.
- This statement merely reiterated the relevant provisions of the FTA, as explained above.

US-Korea Free Trade Agreement: Kaesong Industrial Complex (KIC)

The United States-Korea Free Trade Agreement (KORUS FTA) supports and reinforces the current embargo against North Korea. It includes strong protections against allowing imports from North Korea that both sides have committed to enforcing vigorously.

What is KIC?

- The Kaesŏng Industrial Complex is a collaborative economic development zone between South and North Korea, located in North Korea, six miles north of the DMZ. Although it is located in North Korea and employs an estimated 42,000 North Korean workers, the complex was developed by the South Korean businesses.
- The KIC is a measured approach to guide North Korea to liberalize and reform its economy. The KIC is also strategically located to block a potential North Korean land invasion through the closest geographic approach to Seoul.

Products Made in KIC are not imported to the United States

- Currently, the U.S. tightly enforces the embargo, including on all KIC goods, intermediate and otherwise, goods from Kaesong are not imported into the U.S. Korean companies that do business in the KIC purposefully isolate all KIC products and do not allow them to be shipped to the U.S. as they risk losing access to the American market if they violate the U.S. embargo on North Korea. The approval of the FTA won't change that.
- The KORUS FTA will introduce strong customs enforcement measures prevent any fraudulent declaration of origin, including unannounced visits to Korean textile and apparel producers and denying entry for effective goods.

Incorporating KIC into KORUS Would Require Separate Approval by Congress

- The KORUS FTA does not grant products made in the KIC any access to the U.S. The agreement provides for a future opportunity to expand the FTA to include products made in the KIC if, and only if, both the U.S. and South Korean legislatures consent. The U.S. took a similar approach in the Middle East by allowing products made in Qualifying Industrial Zones (QIZs) in Egypt and Jordan access to the U.S. market. It was envisioned in the U.S.-Israel FTA of 1985 and approved by U.S. Congress in 1996.
- Under the KORUS FTA, stringent criteria must be met before products from the KIC may be considered for market access:

“including but not limited to: progress toward the denuclearization of the Korean Peninsula; the impact of the outward processing zones on intra-Korean relations; and the environmental standards, labor standards and practices, wage practices and business and management practices prevailing in the outward processing zone, with due reference to the situation prevailing elsewhere in the local economy and the relevant international norms.”
- The agreement requires Congress to approve “any amendments to the Agreement with respect to outward processing zones [Kaesong],” just as Congress was required to do to extend the Israel FTA to Palestinian zones.

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